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C O N F I D E N T I A L SECTION 01 OF 03 ASTANA 001449

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SUBJECT: KAZAKHSTAN: SPECIAL ENVOY MORNINGSTAR DISCUSSES
OIL TRANSPORTATION PROJECTS WITH MINISTER OF ENERGY MYNBAYEV

REF: A. ASTANA 1365
[1](#)B. ASTANA 1438
[1](#)C. ASTANA 1445
[1](#)D. ASTANA 1400

Classified By: Ambassador Richard E. Hoagland, 1.4 (b), (d)

[1](#)1. (C) SUMMARY: On August 26, Special Envoy for Eurasian Energy Richard M. Morningstar met with Minister of Energy and Mineral Resources (MEMR) Sauat Mynbayev to discuss two oil export projects: the Caspian Pipeline Consortium (CPC) pipeline expansion and the Kazakhstan Caspian Transportation System (KCTS). Mynbayev said he expects both projects to move forward, albeit slowly, as negotiations with international oil companies (IOCs) over tariff structures, equity participation, access rights, and financing terms continue. Mynbayev mentioned that Russia does not openly oppose either project. However, he conveyed Russian criticism of CPC and said Russian proposals to export Kazakhstani crude oil via an expanded Atyrau-Samara pipeline were becoming increasingly attractive to the government of Kazakhstan. He also asked SE Morningstar to raise with Azeri President Ilham Aliyev the issue of IOC equity participation in the trans-Caspian portion of KCTS, which Kazakhstan supports, but Azerbaijan has thus far opposed. END SUMMARY.

CPC EXPANSION MOVING FORWARD...

[1](#)2. (C) During the 45-minute meeting, Mynbayev confirmed that the government is still &very interested8 in expansion of the CPC pipeline. He said BP that has already sold its stake in CPC to Lukoil and KazMunaiGas (KMG), thus clearing the way for a vote to sanction expansion. (NOTE: KMG President Kaigeldy Kabyldin made similar comments to SE Morningstar, reflet B. However, KMG,s representative to the CPC Board of Directors, Timur Rakhanov, told SE Morningstar on August 25 that BP and Lukoil have not yet signed all of the necessary legal documents, and the CPC shareholders, agreement has not yet been amended. BP has made no public statement about its withdrawal from CPC. END NOTE).

...ALBEIT SLOWLY

13. (C) Mynbayev conceded that progress on CPC expansion has been slow, and the consortium continues to discuss who will manage the expansion project. He said Russia is advocating for management by the CPC members themselves, based on the proportion of share ownership, while Chevron insists on hiring an outside firm. (NOTE: Having purchased Oman,s seven percent of CPC earlier this year, Russia now owns 31 percent of CPC. END NOTE). Mynbayev was optimistic that Russia and the IOCs would reach a compromise. &If Russia had serious objections to CPC expansion,8 he said, &they would never have come this far. As for Kazakhstan,8 Mynbayev continued, &we don,t care who manages CPC expansion, as long as the work gets done. We don,t consider this a deal-breaker.8

ATYRAU-SAMARA A VIABLE ALTERNATIVE?

14. (C) Mynbayev cited the Atyrau-Samara oil pipeline as an additional export alternative, but stated &it has some disadvantages. First, the pipeline goes through Russia, which does not meet our goal of diversifying export routes. Second,8 he continued, &the pipeline lacks a quality bank,8 which would compensate Kazakhstani producers if their higher-quality crude were blended with lower-quality crude from Tatarstan and Bashkiria, thus adversely affecting the market price. Nevertheless, Mynbayev said that Russia is &very interested8 in expanding the capacity of Atyrau-Samara in order to accommodate increased future oil production from Tengiz, Kashagan, and Karachaganak. &We often receive proposals from Russia8 about Atyrau-Samara,

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&and lately, they have become more and more attractive,8 he said. Mynbayev was optimistic that the parties would ultimately reach agreement to expand CPC and establish KCTS, but he reluctantly added that if negotiations faltered, &We would be forced to export our crude almost exclusively through Russia.8

CHINA PIPELINE COMES ONLINE IN 2009

15. (C) Mynbayev also confirmed that the oil pipeline to China will be operational by the end of this year, and the final segment (Kenkiyak-Kumkol) has been completed. He said the China pipeline will eventually carry up to 20 million tons (400,000 barrels per day).

COMMERCIAL QUESTIONS REMAIN

16. (C) Turning to KCTS, Mynbayev began by saying that KMG President Kabyldin is now the government,s lead negotiator, having taken over that role from MEMR. (NOTE: During a private dinner at the Ambassador,s residence on August 26, KMG First Vice President Maksat Idenov said that he, too, has been sidelined on the KCTS negotiations. &I used to be very much involved,8 he said, &but I am not any longer. Mr. Kabyldin is now leading the negotiations. Of course,8 he added, &I can always pass a message to him if necessary.8 END NOTE). Mynbayev told SE Morningstar that CPC expansion would provide a &clearer picture8 of Kazakhstan,s oil transportation needs by helping to determine the exact amount of crude available for export via the KCTS tanker shuttle system. Confirming Kabyldin,s comments to SE Morningstar on August 25, Mynbayev said the government has resolved issues concerning tariff stability, throughput volumes, and access rights with the Kashagan consortium (the so-called G-6), which he claimed needs KCTS more urgently than Tengizchevroil (TCO). Mynbayev said the government was indeed interested in project financing for KCTS, which would enable the government to buy back the IOC,s minority share, but the IOCs have firmly rejected that possibility. &And I suppose,8 he conceded, &that one can understand their point of view.8 Mynbayev was hopeful that the government and IOCs can resolve the remaining questions on KCTS, which he said were &simply commercial in nature.8

GOVERNMENT TO OWN 51 PERCENT OF KCTS

¶7. (C) Mynbayev explicitly confirmed that the government has reached agreement with the IOCs -) including Chevron, representing TCO -) that the government would own 51 percent of the onshore portion of KCTS (i.e., the Eskene-Kuryk pipeline) while the IOCs would own 49 percent. He added that the consortium (which includes KMG, as an equity partner in Kashagan) would pay for 100 percent of the initial costs to construct the pipeline. He emphasized, &there is no way that we would ever agree to own less than 51 percent of KCTS. Never.8

RUSSIAN CRITICISM OF CPC CONSORTIUM

¶8. (C) In an aside, Mynbayev shared Russian criticism of the CPC consortium. He reassured SE Morningstar that the Eskene-Kuryk pipeline would not charge exorbitant fees, but he insisted that it would be profitable, &unlike the CPC pipeline.8 Mynbayev said he frequently hears complaints from Russian colleagues, who wonder why they should pay to expand a pipeline that transits their territory, causes environmental damage, and from which they do not earn a profit.

AZERBAIJAN OPPOSED TO IOC PARTICIPATION IN KCTS

¶9. (C) As the meeting came to a close, SE Morningstar mentioned that he would meet President Aliyev in Baku the

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next day. Mynbayev sat up straight, looked SE Morningstar in the eye, and switching from Russian into fluent English, &Please raise with President Aliyev the possibility of IOC participation in the trans-Caspian portion of KCTS. ThaQ would be helpful.8 Mynbayev explained that Kazakhstan and Azerbaijan have an intergovernmental agreement to establish a 50-50 joint venture to build the oil terminals and offshore infrastructure of KCTS. He said Kazakhstan would be willing to grant the IOCs an equity stake in that joint venture, but only if Azerbaijan also sold them an equal percentage of its share. &Either we go together on this,8 he said, &or not at all.8 SE Morningstar said he would be pleased to raise the issue with President Aliyev.

¶10. (C) COMMENT: The meeting with Mynbayev was significant because it confirmed the government,s willingness to grant the IOCs up to 49 percent equity in KCTS, rather than insisting on retaining 100 percent ownership. While we have no reason to doubt that Mynbayev is able to speak with authority on behalf of the government, we note that KMG President Kabyldin, who takes his orders from Samruk-Kazyna Deputy Chairman Timur Kulibayev, has now replaced Mynbayev as the government,s lead negotiator on KCTS. Kabyldin, notably, made no comment about the equity structure of KCTS, which might signal that the negotiations are far from over. END COMMENT.

¶11. (SBU) Special Envoy Morningstar has not cleared this cable, but he has approved its release.
HOAGLAND